

OPEN MEETING ITEM



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ORIGINAL

COMMISSIONERS
JOHN K. MAYES - Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP



RECEIVED Executive Director

ARIZONA CORPORATION COMMISSION

2010 FEB 12 A 9:35

DATE: FEBRUARY 12, 2010

DOCKET NO.: E-04100A-09-0250

AZ CORP COMMISSION
DOCKET CONTROL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Order on:

SOUTHWEST TRANSMISSION COOPERATIVE, INC.
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

FEBRUARY 22, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

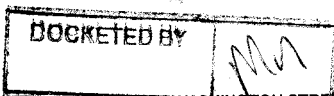
MARCH 2, 2010 and MARCH 3, 2010

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

FEB 12 2010



ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET, PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET, TUCSON, ARIZONA 85701-1347

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This document is available in alternative formats by contacting Shaylin Bernal, ADA Coordinator, voice phone number 602-542-3931, E-mail SABernal@azcc.gov

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 KRISTIN K. MAYES, Chairman
4 GARY PIERCE
5 PAUL NEWMAN
6 SANDRA D. KENNEDY
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION OF
9 SOUTHWEST TRANSMISSION COOPERATIVE,
10 INC. FOR AUTHORIZATION TO INCUR DEBT
11 AND SECURE LIENS ON ITS PROPERTY TO
12 FINANCE ITS 2009-2010 CONSTRUCTION
13 WORK PLAN.

DOCKET NO. E-04100A-09-0250

DECISION NO. _____

ORDER

14 Open Meeting
15 March 2 and 3, 2010
16 Phoenix, Arizona

17 **BY THE COMMISSION:**

18 Having considered the entire record herein and being fully advised in the premises, the
19 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

20 * * * * *

21 **FINDINGS OF FACT**

22 1. On May 20, 2009, Southwest Transmission Cooperative, Inc. ("SWTC" or
23 "Cooperative"), filed an application with the Commission requesting authority to secure interim, and
24 subsequently, permanent long-term financing for its 2009-2010 Construction Work Plan ("CWP").

25 2. On July 8, 2009, SWTC filed an affidavit of publication verifying public notice of its
26 financing application, indicating it published notice of its financing application in the *Kingman Daily*
27 *Miner* on June 10, 2009, and the *Arizona Daily Star* on June 15, 2009. The *Kingman Daily Miner* is
28 a daily newspaper of general circulation in the City of Kingman, Mohave County, Arizona. The
Arizona Daily Star is a daily newspaper of general circulation in Pima County.

3. SWTC is a non-profit Class "A" Arizona member-owned electric transmission
cooperative operating out of Benson, Arizona. SWTC was formed in August 2001 as part of the
reorganization of the Arizona Electric Power Cooperative, Inc. ("AEPSCO"). SWTC is owned by its

1 six Class A Member Cooperatives, which include Anza Electric Cooperative, Duncan Valley Electric
2 Cooperative, Graham County Electric Cooperative, Mohave Electric Cooperative, Sulphur Springs
3 Valley Electric Cooperative and Trico Electric Cooperative, and two Class B Members, AEPCO,
4 which provides generation, and Sierra Southwest ("Sierra"), which provides staffing and human
5 resources services. In addition to providing the electric transmission needs of the member
6 cooperatives, as well as small areas of New Mexico and California, SWTC also provides
7 transmission services to Safford, Thatcher and Mesa and Salt River Agricultural Improvement Project
8 and Power District ("SRP") and the Morenci Water & Electric Company ("MW&E").

9 4. SWTC owns, operates and maintains a 613 mile high voltage and extra high voltage
10 transmission system that spans all the way from the Mohave Desert surrounding Bullhead City,
11 southeast to the playa and wetlands area of Cochise County, near Tucson. Additionally, SWTC
12 operates more than 30 telecommunication facilities across Arizona, which also provide System
13 Control, phone and data relay services to member cooperatives.

14 5. SWTC's current rates were approved in Decision No. 68072 (August 17, 2005).

15 6. In Decision No. 69239 (January 19, 2007), the Commission authorized SWTC to
16 borrow up to \$49,575,000 from the Rural Utilities Service/Federal Financing Bank ("RUS/FFB") to
17 finance its 2005-2008 Construction Work Plan.

18 7. On October 16, 2009, SWTC filed an application with the Commission requesting
19 approval of rates to provide approximately \$7.65 million of additional revenue.¹ A hearing on the
20 rate application is set to commence September 14, 2010.

21 8. On January 14, 2010, the Commission's Utilities Division ("Staff") filed its Staff
22 Report on the current financing request, which recommended conditional approval.

23 9. On January 21, 2010, SWTC filed a response to the Staff Report, stating it had no
24 comments or objections, and that SWTC received loan documents from the RUS/FFB that require
25 execution by early April 2010. Consequently, SWTC requests that the matter be heard on the
26 Commission's regular open meeting scheduled for March 2 and 3, 2010.

27
28 ¹ Docket No. E-04100A-09-0496.

10. SWTC requests authority to secure interim financing in an amount not to exceed \$54,940,000 from the National Rural Utilities Cooperative Finance Corporation ("CFC"). Subsequently, the Cooperative seeks to replace the interim financing with long-term financing not to exceed \$48,072,000 from RUS/FFB and internally generated funds.

11. The Cooperative also requests that the Commission authorize it to change the specific facilities to be financed in the CWP without the necessity of filing an amended application so long as the total amount financed does not exceed \$54,940,000 for the interim financing or \$48,072,000 for the permanent financing.

12. Staff reports that SWTC has no outstanding Commission compliance issues.

13. A summary of the 2009-2010 SWP, by major category follows:

<u>Capital Projects</u>	<u>2009-2010 Total</u>
Transmission Lines	\$14,091,000
New Substations and Switching Stations	\$18,501,000
Line and Substation Changes	\$10,793,000
Communications & SCADA	\$3,487,000
Lines & Substations Ordinary Replacements	\$1,200,000
Total	\$48,072,000

14. The Commission Engineering Staff reviewed the Cooperative's proposed capital improvements and found the project costs appropriate and the related cost estimates reasonable. Staff makes no "used and useful" determination of the proposed improvements nor any conclusion for rate base or ratemaking purposes.

15. Staff found the items included in the capital projects to be appropriate to meet new load growth of the member cooperatives and that they will enable SWTC to operate and maintain the electric system in a safe and reliable manner.

16. Staff's financial analysis shows that for the year ended December 31, 2008, SWTC

1 had a Times Interest Earned Ratio ("TIER") of 1.98 and Debt Service Coverage ("DSC") of 1.59.²

2 17. Staff's pro forma analysis, includes the proposed \$48,072,000 loan, with a 30 year
3 amortization and an interest rate of 6.75 percent per annum, and includes the unused portion of the
4 previously authorized debt (\$25,565,000 at 4.50 percent), and calculated a TIER of 1.02 and DSC of
5 0.98. In addition, Staff further assumed SWTC would receive revenue of \$910,632 (principal and
6 interest on \$11,700,000) of direct assignment facility ("DAF") reimbursements from its Class A
7 members for some of the facilities financed by the proposed loan, and calculated a TIER of 1.12 and
8 DSC of 1.05.

9 18. Staff concludes that the pro forma DSC results indicate that only with recognition of
10 the DAF reimbursements does the Cooperative have sufficient funds to pay all obligations.

11 19. Staff states further that RUS/FFB loan covenants require a minimum DSC of 1.05.

12 20. Staff states that as of December 31, 2008, SWTC's capital structure consisted of 3.6
13 percent short-term debt, 87.7 percent long-term debt, and 8.7 percent equity. Staff's pro forma
14 analysis, reflecting the issuance of a \$48,072,000, 30-year amortizing loan at 6.75 percent per annum,
15 plus issuance of a \$25,565,000, 30-year amortizing loan at 4.5 percent,³ the capital structure would be
16 composed of 2.6 percent short-term debt, 92.2 percent long-term debt and 5.2 percent equity.

17 21. Staff concludes that the issuance of the proposed debt financing for the purposes stated
18 in the application is within SWTC's corporate powers, is compatible with the public interest, is
19 consistent with sound financial practices and will not impair its ability to provide services.

20 22. Staff recommends authorization for SWTC to incur interim debt in an amount not to
21 exceed \$54,940,000 from the CFC, and subsequently, to refinance the interim debt, in part, via
22 amortizing debt in an amount not to exceed \$48,072,000 for a period of 28 to 32 years and at a rate
23 not to exceed 6.75 percent from the RUS/FFB.

24
25 ² TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater
26 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long
27 term but does not mean that debt obligations cannot be met in the short term. DSC represents the number of times
28 internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC
greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that
debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to
avoid default.

³ The unused portion of previously authorized debt.

1 23. Staff further recommends:

- 2 a. authorizing SWTC to engage in any transactions and to execute any documents
3 necessary to effectuate the authorizations granted;
- 4 b. that SWTC file with Docket Control, as a compliance item in this matter, copies of the
5 loan documents within 60 days of the execution of any financing transaction
6 authorized herein; and
- 7 c. that the Commission approve the Cooperative's request to change the specific
8 facilities to be financed in the CWP without the necessity of filing an amended
9 application subject to the following conditions: (1) that the total amount financed
10 remains below the financing amount requested herein; (2) that the Cooperative file in
11 this docket a description of the modification(s) and its cost; (3) that the proposed
12 modification(s) to the CWP substantially conform to the purposes of the CWP; and (4)
13 that the cumulative costs do not exceed \$450,000, or if the cumulative costs exceed
14 \$450,000, Staff does not file an objection to the proposed modification(s) within 60
15 days of SWTC filing the proposed changes.

16 24. Finally, Staff recommends that any authorization to incur debt granted in this
17 proceeding termination on December 31, 2012.

18 25. In Decision No. 69239, the Commission was concerned about SWTC's equity levels
19 and ordered SWTC to file an annual equity analysis. Staff's analysis indicates that with full issuance
20 of authorized financing, SWTC's equity would fall to approximately 5 percent of total capital.
21 Staff's analysis is a "worst-case" analysis in that all of the authorized debt is drawn and there is no
22 change in rates. SWTC currently has a pending rate case in which the Commission will analyze and
23 address SWTC's equity level.

24 26. Decision NO, 69239, which authorized SWTC to borrow \$49,575,000 for its 2005-
25 2008 CWP, allowed the Cooperative to modify the projects in its CWP without additional
26 Commission approval, as long as aggregate modifications did not exceed \$500,000, and they
27 substantially conformed to the purposes of the current CWP. The Cooperative seeks to retain this
28 flexibility. This process is intended to save the Cooperative, Staff and the Commission the time and

resources associated with a formal amendment procedure, but still affords the Commission an opportunity to review the proposed modification. To date, the process has worked successfully. Staff will have 60 days to review any proposed project modifications. The Cooperative's request is reasonable.

27. Staff's recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. SWTC is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over SWTC and of the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. The financing as approved herein is for lawful purposes within SWTC's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by SWTC of service as a public service corporation, and will not impair SWTC's ability to perform the service.

5. The financing approved herein is for the purposes stated in the application, is reasonably necessary for those purposes and such purposes are not be reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Southwest Transmission Cooperative, Inc. is hereby authorized to borrow an amount not to exceed \$54,940,000 from the National Rural Utilities Cooperative Finance Corporation for interim financing, as described herein and in the application, and an amount not to exceed \$48,072,000 from the Rural Utilities Service/Federal Financing Bank for long-term financing, when available, to replace the approved interim financing.

IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon Southwest Transmission Cooperative, Inc.'s use of the proceeds for the purposes stated in its application and approved herein.

IT IS FURTHER ORDERED that use of the loan proceeds authorized herein shall be

1 restricted to financing capital improvement projects as described in Southwest Transmission
2 Cooperative, Inc.'s 2009-2010 Construction Work Plan as that plan may be amended as set forth
3 herein, in an amount not to exceed \$54,940,000 for interim financing and \$48,072,000 for long-term
4 financing.

5 IT IS FURTHER ORDERED that the authorization to incur debt granted herein shall
6 terminate on December 31, 2012.

7 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. may, without
8 additional Commission approval, use the loan proceeds authorized herein for modifications to the
9 2009-2010 Construction Work Plan as long as the projects substantially conform to the purposes of
10 the projects in the Plan and the total amount financed remains below the financing amounts approved
11 herein. Before implementing any such modification, Southwest Transmission Cooperative, Inc. shall
12 file in this docket a description of the project and its cost.

13 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall file in this
14 docket any proposed modifications to the 2009-2010 Construction Work Plan which substantially
15 conform to the purposes of the 2009-2010 Construction Work Plan; and if the cumulative costs of the
16 proposed modifications are greater than \$450,000, and do not exceed the authorized amount of
17 \$54,940,000 for interim financing or \$48,072,000 for long-term financing, the proposed project
18 modifications shall be deemed approved unless Staff files an objection to the proposed modifications
19 within 60 days of Southwest Transmission Cooperative, Inc. filing the proposed changes.

20 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. is authorized to
21 execute any documents necessary to effectuate the authorizations granted.

22 IT IS FURTHER ORDERED that Southwest Transmission Cooperative, Inc. shall file with
23 Docket Control, as a compliance item in this docket, copies of all executed financing documents
24 within 30 days after the date of execution.

25 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
26 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
27 proceeds derived thereby for purposes of establishing just and reasonable rates.

28 IT IS FURTHER ORDERED that the finance authority granted herein shall be expressly

1 contingent upon Southwest Transmission Cooperative, Inc.'s use of the proceeds for the purposes
2 stated in its application and approved herein.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
5
6

7 CHAIRMAN _____ COMMISSIONER _____
8

9 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____
10

11 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
12 Executive Director of the Arizona Corporation Commission,
13 have hereunto set my hand and caused the official seal of the
14 Commission to be affixed at the Capitol, in the City of Phoenix,
15 this _____ day of _____, 2010.

16 _____
17 ERNEST G. JOHNSON
18 EXECUTIVE DIRECTOR

19 DISSENT _____
20

21 DISSENT _____
22

22 JR:

23
24
25
26
27
28

1 SERVICE LIST FOR: SOUTHWEST TRANSMISSION COOPERATIVE, INC.'S

2 DOCKET NO.: E-04100A-09-0250

3 Michael M. Grant
4 GALLAGHER & KENNEDY, PA
5 2575 East Camelback Road
6 Phoenix, AZ 85016-9225
7 Attorneys for SWTC

8 Janice Alward, Chief Counsel
9 Legal Division
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington Street
12 Phoenix, AZ 85007

13 Steve Olea, Director
14 Utilities Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington Street
17 Phoenix, AZ 85007

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